

PDD Holdings (PDD US)

Investment to enhance platform ecosystem, user retention impacted ST earnings

PDD Holdings (PDD) announced (27 May) 1Q25 results: revenue was up 10.2% YoY (4Q24: 24.4%) to RMB95.7bn, 6% shy of Bloomberg consensus estimates. This shortfall was mainly due to a 12% miss on transaction services fees, despite partly offset by the 2% beat in online marketing services and others revenue, which we attribute to the further step-up in merchant support, and is likely to sustain, in our view. Non-GAAP NP decreased by 45% YoY to RMB16.9bn, significantly missing consensus by 39%. We attribute the miss to greater-than-expected sales and marketing spending to match the intensity of national subsidies on other e-commerce platforms. In addition, PDD has upgraded its platform ecosystem enhancement program in Apr 2025 to improve quality and diversity of supply, as well as to enhance user retention, which in our view both should weigh on short-term earnings growth. We cut our 2025-2027E non-GAAP NP forecast by 25-31% to factor in the impact. But we are looking for a turning point for earnings growth in 4Q25E, when both the launch of first batch of platform ecosystem enhancement policies and “national subsidies” campaign reached full-year milestone. We cut our SOTP based TP by 21% to US\$134.5, translating into 15x 2025E PE (non-GAAP). Maintain BUY.

■ **Merchant support policies weighed on transaction services fee growth.** In 1Q25, PDD's online marketing services and others revenue rose by 14.8% YoY (1Q24: 55.8% YoY; 4Q24: 17.1% YoY) to RMB48.7bn, 2% better than consensus. We estimate the growth is largely inline with that of GMV growth of PDD's main app. Transaction services revenue for 1Q25 grew by merely 5.8% YoY (1Q24: 326.8% YoY; 4Q24: 33.3% YoY) to RMB47.0bn, which missed consensus by 12%. In our view, this is attributed to PDD's move to further enhance merchant support. Accounting for the greater-than-expected impact from enhancement in merchant support, we cut 2025E-2027E revenue forecast by 9-12%.

■ **Significant rise in S&M expense lead to a miss on OPM.** PDD's GPM shrank to 57.2% in 1Q25 (1Q24: 62.3%), and was 1.0ppt shy of consensus, which we attribute to the miss in commission revenue which has a higher-than-company average gross margin, as PDD is strengthening its merchant support. However, the GPM recovered from the trough of 56.8% in 4Q24, which in our view was driven by the business model transformation of Temu to “semi-entrusted model” in some of the countries that face greater geopolitical impact. Sales and marketing expense in 1Q25 reached RMB33.4bn, up 43% YoY (4Q24: 17.7%), which accounted for 34.9% of total revenue, and was 6.4ppts worse than consensus. This indicates that PDD has further stepped up its user subsidy to maintain user retention and market share amid the backdrop of “national subsidy” program. Management noted on earnings conference call that it will offer additional coupons across all categories to meet diverse consumer demands, and it will continue to benchmark prices against the national subsidy program and expand the promotion coverage to categories such as daily necessity to enhance user experience in the coming quarters.

■ **SOTP-based TP lowered to US\$134.5; maintain BUY.** Our new TP consists, per ADS: 1) US\$83.1 for the main app based on 12x 2025E PE (was US\$125.1); 2) US\$1.9 for Duoduo Grocery (unchanged); 3) US\$20.5 for Temu based on 1.0x 2025E PS (unchanged); and 4) US\$29.0 for net cash (was US\$20.1 after considering 30% holding discount).

BUY (Maintain)

Target Price **US\$134.50**
 (Previous TP) US\$170.40)
Up/Downside **34.5%**
Current Price **US\$100.00**

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Stock Data

Mkt Cap (US\$ mn)	171,744.1
Avg 3 mths t/o (US\$ mn)	550.2
52w High/Low (US\$)	154.27/88.35
Total Issued Shares (mn)	1440.3

Source: FactSet

Shareholding Structure

Entities affiliated with Zheng Huang	27.9%
Entities affiliated with Tencent	15.5%

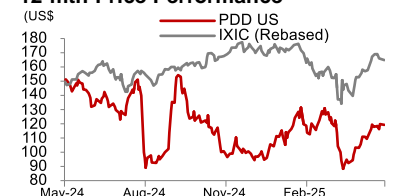
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	14.6%	6.4%
3-mth	0.5%	-0.6%
6-mth	20.7%	22.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	247,639	393,836	434,559	535,634	595,007
Net profit (RMB mn)	60,026.5	112,434.5	85,317.9	117,434.1	134,138.1
Adjusted net profit (RMB mn)	67,899.4	122,343.6	94,878.2	128,414.6	145,740.7
YoY growth (%)	71.8	80.2	(22.4)	35.3	13.5
EPS (Adjusted) (RMB)	46.51	82.71	63.31	85.69	97.25
Consensus EPS (RMB)	na	82.71	88.41	104.91	122.27
P/E (x)	19.3	10.5	14.2	10.3	9.0

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PDD: quarterly financial results

(RMBmn)	1Q24	2Q24	3Q24	4Q24	1Q25	1Q25E Consensus	Diff (%)
Online marketing services and others	42,456	49,116	49,351	57,011	48,722	47,987	1.5%
YoY growth (%)	55.8%	29.5%	24.3%	17.1%	14.8%		
Transaction services fees	44,356	47,944	50,003	53,599	46,950	53,613	-12.4%
YoY growth (%)	326.8%	234.2%	71.5%	33.3%	5.8%		
Total revenue	86,812	97,060	99,354	110,610	95,672	101,600	-5.8%
YoY growth (%)	130.7%	85.7%	44.3%	24.4%	10.2%		
Gross profit	54,117	63,361	59,645	62,812	54,725	59,159	-7.5%
S&M	23,411	26,049	30,484	31,357	33,403	28,946	15.4%
G&A	1,823	1,839	1,806	2,085	1,659	2,037	-18.6%
R&D	2,910	2,909	3,063	3,777	3,578	3,386	5.7%
Operating profit	25,974	32,565	24,292	25,592	16,086	24,678	-34.8%
Non-GAAP net profit	30,602	34,432	27,459	29,851	16,916	27,884	-39.3%
GPM (%)	62.3%	65.3%	60.0%	56.8%	57.2%	58.2%	-1.0 ppt
S&M expense ratio	27.0%	26.8%	30.7%	28.3%	34.9%	28.5%	6.4 ppt
G&A expense ratio	2.1%	1.9%	1.8%	1.9%	1.7%	2.0%	-0.3 ppt
R&D expense ratio	3.4%	3.0%	3.1%	3.4%	3.7%	3.3%	0.4 ppt
OPM (%)	29.9%	33.6%	24.5%	23.1%	16.8%	24.3%	-7.5 ppt
Non-GAAP NPM (%)	35.3%	35.5%	27.6%	27.0%	17.7%	27.4%	-9.8 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PDD: forecast revision

RMB bn	Current			Previous			Change (%)		
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E
Revenue	434.6	535.6	595.0	496.3	597.8	656.8	-12.4%	-10.4%	-9.4%
Gross profit	254.9	295.1	330.8	296.6	358.6	395.1	-14.1%	-17.7%	-16.3%
Operating profit	81.7	122.7	142.8	128.3	170.2	192.0	-36.3%	-27.9%	-25.6%
Non-GAAP net profit	94.9	128.4	145.7	136.7	173.3	193.1	-30.6%	-25.9%	-24.5%
Gross margin	58.7%	55.1%	55.6%	59.8%	60.0%	60.2%	-1.1 ppt	-4.9 ppt	-4.6 ppt
Operating margin	18.8%	22.9%	24.0%	25.9%	28.5%	29.2%	-7.1 ppt	-5.6 ppt	-5.2 ppt
Non-GAAP net margin	21.8%	24.0%	24.5%	27.5%	29.0%	29.4%	-5.7 ppt	-5.0 ppt	-4.9 ppt

Source: CMBIGM estimates

Figure 3: PDD: SOTP valuation

#	Segment	Rev (RMBmn)	OP (RMBmn)	NOPAT (RMBmn)	2025E P/E (x)	2025E P/S (x)	Val. Rmb mn	Val. US\$m	\$/share	Value split	Comment
1	PDD main app	274,704	93,399	74,719	12.0		896,633	124,532	83.1	61.8%	12.0x 2025E PE; tax rate @20%
2	Duoduo										
3	Grocery Temu (2025E)	20,692				1.0	20,692	2,874	1.9	1.4%	1.0x 2025E PS
4	Net cash	220,919				1.0	220,919	30,683	20.5	15.2%	1.0x 2025E PS
							312,747	43,437	29.0	21.6%	2025E net cash
	Total						1,450,991	201,527	134.5		

Source: CMBIGM estimates

Risks

1) Slower-than-expected global business expansion; 2) geopolitical issues impacting business development; and 3) slower-than-expected margin expansion.

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	130,558	247,639	393,836	434,559	535,634	595,007
Cost of goods sold	(31,462)	(91,724)	(153,900)	(179,634)	(240,496)	(264,171)
Gross profit	99,095	155,916	239,936	254,925	295,139	330,836
Operating expenses	(68,693)	(97,217)	(131,513)	(173,216)	(172,449)	(187,994)
Selling expense	(54,344)	(82,189)	(111,301)	(150,044)	(144,422)	(157,456)
Admin expense	(3,965)	(4,076)	(7,553)	(8,275)	(10,200)	(11,330)
R&D expense	(10,385)	(10,952)	(12,659)	(14,897)	(17,826)	(19,207)
Others	0	0	0	0	0	0
Operating profit	30,402	58,699	108,423	81,709	122,690	142,842
Interest income	3,997	10,238	20,553	19,894	18,390	18,745
Interest expense	(52)	(44)	0	0	0	0
Foreign exchange gain/loss	(150)	36	588	588	588	588
Others	2,221	2,953	3,120	3,120	3,120	3,120
Pre-tax profit	36,419	71,881	132,684	105,310	144,788	165,295
Income tax	(4,726)	(11,850)	(20,267)	(20,009)	(27,371)	(31,174)
Others	(155)	(5)	17	17	17	17
After tax profit	31,538	60,027	112,435	85,318	117,434	134,138
Minority interest	0	0	0	0	0	0
Net profit	31,538	60,027	112,435	85,318	117,434	134,138
Adjusted net profit	39,530	67,899	122,344	94,878	128,415	145,741

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	216,618	294,750	415,648	493,591	622,585	764,176
Cash & equivalents	34,326	59,794	57,768	134,874	261,791	402,162
Restricted cash	57,974	61,985	68,426	68,426	68,426	68,426
Account receivables	588	3,914	3,679	4,060	5,004	5,559
Prepayment	2,298	4,213	4,413	4,870	6,003	6,668
Other current assets	121,431	164,843	281,361	281,361	281,361	281,361
Non-current assets	20,502	53,328	89,386	89,399	89,444	89,471
PP&E	1,045	980	879	892	937	964
Right-of-use assets	1,416	4,105	5,064	5,064	5,064	5,064
Intangibles	134	21	19	19	19	19
Other non-current assets	17,907	48,222	83,423	83,423	83,423	83,423
Total assets	237,120	348,078	505,034	582,989	712,029	853,647
Current liabilities	116,889	152,901	188,423	171,878	172,503	168,381
Short-term borrowings	13,886	649	5,310	5,310	5,310	5,310
Account payables	63,317	74,997	91,656	76,554	75,753	81,062
Other current liabilities	18,124	20,262	20,210	24,655	27,437	29,328
Lease liabilities	602	1,642	2,106	2,106	2,106	2,106
Accrued expenses	20,961	55,351	69,142	63,254	61,898	50,576
Non-current liabilities	2,460	7,936	3,298	3,298	3,298	3,298
Convertible bonds	1,576	5,232	0	0	0	0
Other non-current liabilities	884	2,704	3,298	3,298	3,298	3,298
Total liabilities	119,349	160,837	191,721	175,177	175,802	171,679
Share capital	0	0	0	0	0	0
Capital surplus	99,255	107,399	118,067	118,067	118,067	118,067
Retained earnings	15,193	75,119	187,421	281,921	410,336	556,076
Other reserves	3,322	4,724	7,825	7,825	7,825	7,825
Total shareholders equity	117,771	187,242	313,313	407,813	536,227	681,968
Total equity and liabilities	237,120	348,078	505,034	582,989	712,029	853,647

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	36,419	71,881	132,684	105,310	144,788	165,295
Depreciation & amortization	2,224	786	709	0	437	509
Tax paid	(4,726)	(11,850)	(20,267)	(20,009)	(27,371)	(31,174)
Change in working capital	7,423	40,313	28,020	(17,381)	(1,452)	(5,343)
Others	7,167	(6,968)	(19,217)	9,578	10,998	11,620
Net cash from operations	48,508	94,163	121,929	77,497	127,399	140,907
Investing						
Capital expenditure	(636)	(583)	(967)	(391)	(482)	(536)
Acquisition of subsidiaries/ investments	(167,210)	(172,183)	(254,120)	0	0	0
Net proceeds from disposal of short-term investments	141,928	130,317	147,288	0	0	0
Others	3,556	(12,982)	(10,557)	0	0	0
Net cash from investing	(22,362)	(55,431)	(118,356)	(391)	(482)	(536)
Financing						
Net borrowings	0	0	0	0	0	na
Proceeds from share issues	0	0	0	(0)	0	na
Share repurchases	0	0	0	0	0	na
Others	10	(8,961)	1	0	0	na
Net cash from financing	10	(8,961)	1	(0)	0	na
Net change in cash						
Cash at the beginning of the year	66,044	92,300	121,780	57,768	134,874	na
Exchange difference	100	(291)	840	0	0	na
Others	0	0	68,426	0	0	na
Cash at the end of the year	92,300	121,780	194,621	134,874	261,791	na
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	39.0%	89.7%	59.0%	10.3%	23.3%	11.1%
Gross profit	59.2%	57.3%	53.9%	6.2%	15.8%	12.1%
Operating profit	340.8%	93.1%	84.7%	(24.6%)	50.2%	16.4%
Net profit	306.0%	90.3%	87.3%	(24.1%)	37.6%	14.2%
Adj. net profit	185.8%	71.8%	80.2%	(22.4%)	35.3%	13.5%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Gross profit margin	75.9%	63.0%	60.9%	58.7%	55.1%	55.6%
Operating margin	23.3%	23.7%	27.5%	18.8%	22.9%	24.0%
Adj. net profit margin	30.3%	27.4%	31.1%	21.8%	24.0%	24.5%
Return on equity (ROE)	32.7%	39.4%	44.9%	23.7%	24.9%	22.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	1.9	1.9	2.2	2.9	3.6	4.5
Receivable turnover days	1.8	3.3	3.5	3.3	3.1	na
Payable turnover days	(729.9)	(275.2)	(197.6)	(170.9)	(115.6)	na
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	34.3	19.3	10.5	14.2	10.3	9.0
P/E (diluted)	31.2	18.4	10.4	13.5	10.0	8.8
P/B	9.2	6.2	3.8	3.0	2.3	1.8

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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